

ALTERNATIVE FORECASTS

Global Insight has assigned a 55% probability of occurrence to its March 2004 baseline forecast of the U.S. economy. The major features of this forecast include:

- Real GDP increases 3.1% in 2003, 4.7% in 2004, 3.6% in 2005, 3.7% in 2006, and 3.6% in 2007;
- U.S. nonfarm employment declines 0.3% in 2003, then grows 0.8% in 2004, 2.0% in 2005, 1.8% in 2006, and 1.6% in 2007;
- the U.S. civilian unemployment rate falls gradually from 6.0% in 2003 to 5.3% by 2007;
- inflation is 2.3% in 2003, 1.7% in 2004, 1.3% in 2005, 1.6% in 2006, and 2.1% in 2007;
- the current account deficit grows from \$550 billion in 2003 to \$615.5 billion in 2004.

By almost all measures the U.S. economy is healthy. Inflation is dormant, real GDP growth is strong, interest rates are low, productivity is surging, profits are high, exports are growing, the stock market is recovering nicely, and the unemployment rate is at its long-term average. The only missing element is jobs. A few months ago it appeared the economy may have begun adding jobs. However, several subsequent months of disappointing job growth has raised doubts about the employment recovery. Thus, the future of the economy hinges on future job performance.

The baseline forecast looks fairly positive. Real GDP is expected to march forward. Inflation should remain low. And the unemployment rate is projected to drop to 5.5%, which is considered full-employment by many economists. The two alternatives presented here explore what would happen if the economy took different paths than the baseline. The first alternative assumes there is more strength in the forecast than in the baseline. The second alternative assumes the economy grows slower than in the baseline. Each of these two alternatives is discussed in more detail below.

OPTIMISTIC SCENARIO

The *Optimistic Scenario* has been assigned a 20% probability of occurrence. This scenario differs from the baseline in five main ways. The dollar is weaker, foreign growth is stronger, the housing boom lasts longer, total factor productivity is higher, and investment in information-related equipment is stronger. While these assumptions may seem like wishful thinking, a solid case can be made for each of them. This is mainly because they differ just slightly from the baseline. For example, in the Optimistic Scenario the dollar slides 11% against other developed countries' currencies compared to 10% in the baseline. Growth in foreign economies is about 0.5 percentage point stronger compared to the baseline in 2004.

These differing assumptions cause the economy to grow faster than in the baseline. Real GDP advances 5.3% this year (0.6 percentage points faster than in the baseline) and 3.9% in 2005 (0.3 percentage points faster than in the baseline). Nonfarm employment growth is also noticeably higher this year and next. The U.S. civilian unemployment rate declines more steeply than in the baseline, falling to 5.1% in 2005, compared with 5.4% in the baseline. Because both GDP growth and labor markets are stronger, inflation is a bit higher. As a result, the Federal Reserve keeps its federal funds rate about 0.25 percentage point higher than its baseline counterpart through most of the forecast period.

IDAHO ECONOMIC FORECAST
BASELINE AND ALTERNATIVE FORECASTS
APRIL 2004

	BASELINE				OPTIMISTIC				PESSIMISTIC			
	2004	2005	2006	2007	2004	2005	2006	2007	2004	2005	2006	2007
GDP (BILLIONS)												
Current \$	11,683	12,282	12,945	13,678	11,741	12,381	13,055	13,799	11,628	12,075	12,648	13,251
% Ch	6.3%	5.1%	5.4%	5.7%	6.9%	5.5%	5.4%	5.7%	5.9%	3.8%	4.7%	4.8%
2000 Chain-Weighted	10,887	11,277	11,699	12,119	10,944	11,374	11,802	12,214	10,836	11,108	11,505	11,905
% Ch	4.7%	3.6%	3.7%	3.6%	5.3%	3.9%	3.8%	3.5%	4.2%	2.5%	3.6%	3.5%
PERSONAL INCOME - CURR \$												
Idaho (Millions)	36,779	38,618	40,980	43,503	36,945	38,996	41,399	43,968	36,683	38,003	39,918	42,062
% Ch	4.5%	5.0%	6.1%	6.2%	4.9%	5.6%	6.2%	6.2%	4.2%	3.6%	5.0%	5.4%
U.S. (Billions)	9,587	10,099	10,711	11,374	9,615	10,170	10,797	11,470	9,560	9,947	10,448	11,000
% Ch	4.3%	5.3%	6.1%	6.2%	4.6%	5.8%	6.2%	6.2%	4.0%	4.0%	5.0%	5.3%
PERSONAL INCOME - 2000 \$												
Idaho (Millions)	34,415	35,620	37,139	38,557	34,559	35,944	37,487	38,892	34,317	35,136	36,468	37,849
% Ch	2.9%	3.5%	4.3%	3.8%	3.4%	4.0%	4.3%	3.7%	2.6%	2.4%	3.8%	3.8%
U.S. (Billions)	8,971	9,315	9,707	10,081	8,994	9,374	9,777	10,146	8,944	9,197	9,545	9,899
% Ch	2.8%	3.8%	4.2%	3.8%	3.0%	4.2%	4.3%	3.8%	2.5%	2.8%	3.8%	3.7%
TOTAL NONFARM EMPLOYMENT												
Idaho	578,455	587,844	599,856	613,312	580,389	591,782	604,482	618,120	577,381	582,283	590,992	602,375
% Ch	1.2%	1.6%	2.0%	2.2%	1.6%	2.0%	2.1%	2.3%	1.0%	0.8%	1.5%	1.9%
U.S. (Thousands)	130,932	133,550	135,968	138,204	131,231	134,275	136,742	138,846	130,658	132,183	133,943	135,837
% Ch	0.8%	2.0%	1.8%	1.6%	1.0%	2.3%	1.8%	1.5%	0.6%	1.2%	1.3%	1.4%
GOODS PRODUCING SECTOR												
Idaho	101,484	100,866	100,281	100,592	102,757	102,814	102,143	102,333	100,815	98,206	96,802	96,690
% Ch	-0.6%	-0.6%	-0.6%	0.3%	0.6%	0.1%	-0.7%	0.2%	-1.3%	-2.6%	-1.4%	-0.1%
U.S. (Thousands)	21,708	21,995	22,272	22,574	21,744	22,216	22,606	22,863	21,617	21,502	21,415	21,591
% Ch	-0.5%	1.3%	1.3%	1.4%	-0.3%	2.2%	1.8%	1.1%	-0.9%	-0.5%	-0.4%	0.8%
NONGOODS PRODUCING SECTOR												
Idaho	476,971	486,978	499,575	512,720	477,633	488,968	502,339	515,787	476,566	484,076	494,190	505,685
% Ch	1.6%	2.1%	2.6%	2.6%	1.8%	2.4%	2.7%	2.7%	1.5%	1.6%	2.1%	2.3%
U.S. (Thousands)	109,224	111,555	113,695	115,631	109,488	112,059	114,136	115,982	109,041	110,681	112,529	114,246
% Ch	1.0%	2.1%	1.9%	1.7%	1.3%	2.3%	1.9%	1.6%	0.9%	1.5%	1.7%	1.5%
SELECTED INTEREST RATES												
Federal Funds	1.1%	2.4%	3.0%	3.2%	1.1%	2.6%	3.3%	3.4%	1.0%	1.0%	1.5%	2.6%
Bank Prime	4.1%	5.4%	6.0%	6.2%	4.1%	5.6%	6.3%	6.4%	4.0%	4.0%	4.5%	5.6%
Existing Home Mortgage	6.1%	6.5%	6.7%	6.8%	6.1%	6.6%	6.7%	6.8%	6.0%	6.0%	6.1%	6.6%
INFLATION												
GDP Price Deflator	1.6%	1.5%	1.6%	2.0%	1.5%	1.5%	1.6%	2.1%	1.6%	1.3%	1.1%	1.3%
Personal Cons Deflator	1.5%	1.4%	1.8%	2.3%	1.5%	1.5%	1.6%	2.1%	1.5%	1.2%	1.2%	1.5%
Consumer Price Index	1.7%	1.3%	1.6%	2.1%	1.7%	1.3%	1.6%	2.2%	1.7%	1.0%	1.0%	1.4%

Forecast Begins the FOURTH Quarter of 2003

Idaho's economic outlook improves in this scenario, with most of the boost coming in the first two years of the forecast. Idaho nonfarm employment increases 1.6% in 2004 and 2.0% in 2005, which is 0.4 percentage points faster in each year compared to the baseline. In 2006 and 2007, the growth gap shrinks, and nonfarm employment grows just 0.1 percentage point faster than in the baseline scenario. As a result of the faster job growth over the forecast period, Idaho nonfarm employment is forecast to be 618,120 in 2007, which is more than 4,800 above its baseline counterpart. Idaho real personal income also receives a noticeable boost in the first half of the forecast horizon, which helps push it to \$38.9 billion in 2007. In the *Baseline Scenario*, Idaho real personal income is anticipated to be \$38.6 billion in that same year.

PESSIMISTIC SCENARIO

The *Pessimistic Scenario* is the more likely to occur of the two alternative scenarios presented. It has been assigned a 25% probability of occurrence. The *Pessimistic Scenario* assumes U.S. companies continue to find efficiency gains, substitute more capital for labor, and replace foreign labor for domestic labor. Hiring does improve in this scenario, but not enough to prevent the unemployment rate from increasing to 5.9% by the end of this year and 6.4% by the middle of next year. The slower job growth dampens consumers' income and spending. Businesses continue to invest, but at a slower pace than in the baseline. The economy is also hampered by higher oil prices and poor growth abroad.

Economic growth does not collapse, but instead fades due to the lack of robust job growth. Real GDP advances 4.2% in 2004 (compared with the baseline's 4.7%) and 2.5% in 2005 (compared with the baseline's 3.6%). Fading overall growth and rising unemployment keep the inflation rate low. As a result, the Federal Reserve has no need to hike interest rates. It holds the federal funds rate at 1.0% into early 2006, keeping an ultra-simulative policy that prevents the slide from turning into a new recession. In fact, real GDP recovers in 2006 and 2007, growing just a hair under the baseline rates for those same years.

The impacts from the weaker U.S. economy presented in this scenario ripple through the Idaho economy. For example, Idaho nonfarm employment growth is lower in each year of the forecast compared to the baseline employment. The Gem State's goods-producing sector is particularly hard hit. This sector was projected to decline in the baseline forecast. However, it declines at least twice as fast in each year in the *Pessimistic Scenario*, so at the end of the forecast period there are about 96,690 goods-producing jobs, compared to nearly 100,300 jobs in the baseline forecast. In the *Pessimistic Scenario* there is a total of 602,375 nonfarm jobs in Idaho in 2007. In the *Baseline Scenario* there are 613,312 jobs. Not surprisingly, the forecast for Idaho real personal income growth has also been lowered in the *Pessimistic Scenario*. As a result, it is just \$37.8 billion in 2007, which is significantly lower than the baseline's \$38.6 billion.